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By email: dp19-01@fca.org.uk

Dear Mark,

Financial Services Consumer Panel (The Panel) response to DP19/1: Building a Regulatory Framework for Effective Stewardship

The Panel welcomes the opportunity to contribute to this discussion as we believe that effective stewardship by asset managers and asset owners (e.g., insurers, pension funds and other institutional investors who act on behalf of end consumers), is crucial for sustaining long-term value for consumers.

With increasing popularity of sustainable investments and its attendant broader economic and societal effects, it is important that the FCA takes a lead to set standards and put measures in place to ensure consumers are protected, and that consumers have simple and trustworthy information to allow them to make informed investment decisions. The Panel is writing to express our support for the stewardship framework, and to also set out our views of the potential risks which must be addressed by the FCA around the promotion of ESG products and services.

The FCA should bear in mind the following:

- The Panel recognises that good stewardship coincides with long-term consumer interests and the interests of the firm. Linking this to firm culture, the Panel would urge the FCA and the FRC to consider the role a duty of care may play in promoting better stewardship. Consumers should have assurance that corporate strategies and governance (including management of conflicts of interests and executive remuneration) is in line with long term financial objectives. This can only be done in a meaningful way if institutional asset owners and managers use shareholder voting rights and engagement to drive corporate change. This has become increasingly important as consumers seek investments that pursue ESG and ethical principles.
- The FCA should set out a plan for effective oversight of the firms it regulates to ensure that stewardship policies are matched with effective practice. The FCA should ensure that stewardship is not considered in isolation and that FCA

supervision, enforcement and financial promotions teams are aligned in their approach in requiring asset managers and owners to a robust approach to measuring company performance is in line with investor expectations.

- The FCA should continue to work closely with the FRC and DWP to ensure a consistent approach to the Stewardship Code and SRDII rules.
- If IGCs are to continue to play a role in the pension world there needs to be an objective imposed on them to assess beneficiary views on ESG matters and to demonstrate in their annual reports what actions they have recommended to the firm they are attached to, and what the outcomes were. There should also be clear guidance for IGCs (and trustees) on the definition of ESG and how ESG factors are integrated into investment decision making.
- The FCA should set out the criteria for firms and advisers on what constitutes a 'sustainable investment' product. For example, there is currently no taxonomy, set of consistent definitions of terms or portfolio composition criteria so there is a risk that firms will use 'sustainable and ethical' as a marketing tool to entice consumers. Consumers will purchase products that may not meet their expectations or individual social investment criteria. The FCA will need to drive innovation and determine its role in the implementation of these standards and not rely solely on industry led initiatives. The Panel is concerned about the risk of mis-selling as the demand for ethical and sustainable products increases amongst retail consumers. This will include ensuring advisers, asset managers and owners have a method of assessing member ESG preferences.
- The Panel is concerned about the quality of information in the market including by intermediaries who promote products but who may not have the skillset and training to identify the myriad of complex products that claim to be ethical or sustainable. These are risks that the FCA will need to consider. Again, there is a need for clearer definitions. ESG risks being conflated with ethical/SRI funds, for example, when, ESG factors can be integrated into all investment decision making. There is a reputation risk here if growing demand for sustainable investments isn't met by the requisite level of knowledge among intermediaries.
- The Panel would welcome the establishment of stakeholder workshops to continue the discussion and identify potential innovation in this area, especially to explore technological solutions and industry wide standards.

Yours sincerely

Wanda Goldwag
Chair, Financial Services Consumer Panel